LETTER

OF

HON. WM. D. KELLEY

TO THE

CITIZENS OF THE FOURTH CONGRESSIONAL DISTRICT OF PENNSYLVANIA.

November 2, 1875.

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PHILADELPHIA, Nov. 2, 1875.

To the Citizens of the
Fourth Congressional District of Pennsylvania.

WHEN asked, as I frequently was during the recent canvass, why I refused to take part in it, my answer was, that I could not consistently or conscientiously do so; and now, as the election is closing, and while the result is unknown, I avail myself of this method of announcing to my constituents the facts which, in my judgment, required me to abstain from participating in the campaign. I have abated no jot or tittle of my republicanism. On the questions that led to the organization of that party, I hold my early opinions, and am ever ready to defend them. But new questions have arisen, and are, I believe, now paramount, and on these also I have convictions no less earnest. I cannot receive such convictions from others, and change them as I do the garments I wear, and, like Shakspeare's "scurvy politician, seem to see things I do not." Nor, when they involve the welfare of my country and countrymen, can I conceal them at the dictation of power or party, though accompanied by assurances of continued honors or possible preferment.

Let me, therefore, without further preface, invite your attention to the following, touching my course on the currency question. In 1867 Hugh McCulloch, Secretary of Treasury under Andrew Johnson, announced the purpose of Mr. Johnson's administration to bring about the resumption of specie payments by means of the contraction of the currency. Urging this measure in his annual report he also recommended the continuance of the excessive and annoying taxes then imposed upon the industry and capital of the country, to the end that the debt incurred during the war might be paid by the generation that had contracted it, including, as it did, the widows, orphans, and maimed soldiers of both armies. I saw that this policy was fraught with ruin, and, as your representative, opposed it with all my power. In the course of a speech in the nature of a review of the Secretary's annual report, made January 3d, 1867, I said:—

"The experiment, if attempted as a means of hastening specie payments, will prove a failure, but not a harmless one. It will be fatal to the prospects of a majority of the business men of this generation, and strip the frugal laboring people of the country

of the small, but hard-earned sums they have deposited in savings banks or invested in government securities. It will make money scarce and employment uncertain. Its object is to reduce the amount of that which, in every part of our country and for the hundreds of thousands of millions of dollars of domestic trade, is money, and to increase its purchasing power; and by thus unsettling values it will paralyze trade, suspend production, and deprive industry of employment. It will make the money of the rich man more valuable, and deprive the poor man of his entire capital, the value of his labor, by depriving him of employment. Its first effect will be to increase the rate of interest, and diminish the rate of wages, and its final effect wide-spread bankruptcy, and a more protracted suspension of specie payments." And after illustrating the exhausting influence of the inordinate taxation then imposed, I added: "What the effect of an effort at early resumption, under such circumstances, would be, every experienced business man in the country knows. They know that it can, by any possibility, be but a spasmodic movement *which will literally vomit forth from the country the little gold and silver left in it;** they know that it will bankrupt individuals, corporations, States, and, alas! it may be the National Government. The avowed object of the Secretary in contracting the currency is to increase the purchasing power of money, and they know that the rapid decline in prices pending this mad experiment will sweep away the garnered capital of those manufacturers whose stock, exclusive of buildings and machinery, largely exceeds their working capital; that mechanical and manufacturing industry must be wholly suspended until the blighting tornado shall have spent its power, and that while it rages the receipts of the internal revenue bureau must fall to zero."

Proceeding, Mr. McCulloch said: "We have but touched the surface of our resources; the great mines of our national wealth are yet to be developed." To this suggestion I rejoined by saying: "This is especially true as to the southern portion of our country, and in the name of the impoverished people of that section, I ask, is it well to tax a generation the surface of whose resources has not been touched by the transmuting hand of labor and the mines of whose wealth are yet to be developed in order to pay the principle of a mortgage, the holder of which neither needs nor desires his money? and would not wisdom or State-craft suggest the propriety of enabling the owners of these mines of wealth to obtain capital with which to work them and by the magic touch of labor to convert them into current gold? The taxing process must continue our exhausting dependence on foreign nations, while the developing process would make us as free commercially as we are politically, and enable us by our ex-

* The banks of gold-producing California fail because they cannot keep coin enough for current business.

ample of liberal wages, and freedom from their exhausting hours of toil, to influence the commercial and manufacturing usages of European States as our political example is influencing their political and social institutions." Many thousand copies of this speech, under the title of "How and When our War Debt can be Paid," were distributed among you. I do not exaggerate when I say that hundreds of you expressed to me by letter and otherwise your approval of the stand I had taken, and the argument by which I sustained my position.

Thus strengthened in my convictions, and finding that President Johnson, in his message of December, 1867, approved the effort of Mr. McCulloch to resume by contraction, I again addressed the House of Representatives, on the 18th of Jan. 1868, and endeavored to show that contraction of the currency was the road to bankruptcy, and not to resumption. In the course of these remarks I said:—

"Permit me to say, if I may use a homely figure, that by attempting to collect such heavy taxes, while contracting the currency, we lighted our candle at both ends. The loom and the spindle, no longer able to yield profit to their proprietor, stand idle; the fires are extinguished in forge and furnace, and the rolling-mill does not send forth its hum of cheerful and profitable industry. On one day of last month eighteen hundred operators in the glass factories of Pittsburgh were deprived of the poor privilege of earning wages by honest toil at the trade in which they were skilled. The establishments in which they worked are closed. In the absence of productive employment for men or machinery, the small holders of bonds are selling them to save themselves from bankruptcy if they are proprietors of establishments, or to feed themselves and families in involuntary idleness if they are laborers whose hard-earned savings have been loaned to the Government in its exigency. Look where we may, to any section of the country, we hear of 'shrinkage' in the value of manufactured goods, of reduction of wages or of the hours of labor, of factories running on part time, or closed, or to be closed. . . . . The attempt to force a resumption of specie payments by contracting a volume of currency which is actively, legitimately and profitably employed, *is as dishonest* as it is unwise. The object and effect of such a movement is to increase the purchasing power and value of the rich man's hoarded or invested dollars, and its projectors pause not though they discover that it robs millions of laborers of their whole estate. The laborer's income is derived from his thews and sinews, and the skill of his cunning right hand. These are his estate—these and his little savings—and of these millions are being robbed by the mad attempt of the Secretary of the Treasury to bring about specie payments. The balance of trade is heavily against us; and our gold-bearing bonds are so largely held by foreigners that resumption would, in less than 30 days,

induce the return of bonds enough to drain us of specie and make us feel the curse of absenteeism as keenly as Ireland ever felt it. With our bonds held at home, and with commercial exchanges greatly in our favor, we might maintain specie payments; but with our bonds abroad, and the balance of trade heavily against us, we could not maintain them a month; and if Congress does not restrain Mr. McCulloch from persisting in the attempt, he will unsettle the value of every species of property, curtail the productive power of the country, bankrupt men of enterprise, and rob millions of laboring people of their whole estate."

Congress did prohibit the Secretary from making any further contraction in the volume of greenbacks. Confidence was restored, business immediately revived, and the unemployed laborers of the country again found work and earned wages. Again hundreds of you thanked me for what I had said and done, and, without any effort on my part, you renominated me for Congress and elected me handsomely. Was I wrong in accepting these facts as an endorsement of my views on the currency question, and as expressions of your accord with them?

But there were other forms of national currency, such as compound interest notes, and notes bearing $7\frac{3}{10}$ interest in paper, both of which were payable three years from date, certificates of deposit, which were practically convertible bonds, inasmuch as they were payable on demand; and other forms of indebtedness, the interest on which was payable in greenbacks, and which were, to all intents and purposes, currency, inasmuch as banks could hold them as reserve, and, being the equivalent of greenbacks, they passed in commercial transactions by delivery. Unhappily for the country the law prohibiting the further contraction of the volume of greenbacks did not embrace those other forms of currency, the amount of which was about three times as great as the outstanding volume of greenbacks. To this omission, and Mr. McCulloch's obstinate persistence in his destructive policy of contraction, thousands of manufacturers and merchants owe their bankruptcy, and millions of working people their years of unwilling idleness, and the resulting poverty and suffering.

Mr. McCulloch, though prohibited by Congress from further contracting the greenbacks, was not to be balked in his determination to transfer our bonds to foreign markets, and make an advantageous opening in London for an American Banking House. Availing himself of the omission to which I have referred, he proceeded to issue long bonds bearing six per cent. interest in gold, and thus obtained means to absorb every form of indebtedness, the interest on which was payable in paper, and which could be used as currency. The result was a contraction of our currency to the extent of nearly $1,200,000,000. This in itself must have been disastrous to the enterprising and laboring classes of our country, and especially so to the holders of

mortgaged property, and such as were using a considerable percentage of credit in their business. The effects of this action, had not other governments conspired to aggravate them, would not have been restricted to this country, for the business of the commercial nations at large had adjusted itself to the enlarged volume of money in use by the American people, and so sudden and enormous a contraction would have been felt incidentally, but seriously by most of them had it been unaccompanied by the circumstances to which I am about to call your attention. The plausible but fallacious theories which controlled Mr. McCulloch, and induced him to withdraw from circulation such an amount of money that was without discount in any part of our country, and which, unlike specie basis bank notes or any other form of credit hitherto known, was absolutely unbreakable, and to attempt to substitute for it money consisting of a commodity called gold, the supply of which is wholly inadequate to form the basis of a sound credit system for the enlarged commercial operations of the world, were almost coincidently accepted and carried into effect by several European governments.

At the close of August, 1865, when our legal tender paper money was at its maximum, silver was the legal tender money of Germany, Holland, Sweden, Denmark, and Japan, but in the interim, silver has been demonctized by all of these nations except Holland and Japan, and they have instituted gold coinage in the hope of substituting that metal for silver as their legal tender. By these concurrent proceedings the volume of money to which the productive industries and commerce of the world had adjusted themselves, has been contracted not only by our reduction of the volume of our legal tender paper, but by the demonetization of hundreds of millions of dollars of silver. This has created an immense demand for gold, and as the law of supply and demand determines the value and price of gold as it does of other commodities, it has enhanced its value, while the contraction of the world's money has depreciated the relative value of every other commodity, so that holders of our gold-bearing bonds can now buy from two to four times as much with each dollar of their interest as they could before this world-wide contraction commenced; but, on the other hand, he whose property is sold by the foreclosure of a mortgage, finds that the principal of the mortgage, which was possibly but a small percentage of the marketable value of the property when the debt was incurred, is more than it will now bring when exposed for sale. Those who have suffered most, are suffering most, and are to suffer even more intensely by this tampering by governments with the money of their respective countries, are the toiling millions—the producers of the wealth of the world—those whose estate consists of their skill and vigor as laborers. They are everywhere idle, and are wasting in enforced idleness the earnings and savings of past years, and sinking into despair, and, alas too many of them into crime.

Unable to earn anything, they are unable to buy anything, and from the fact that they do not consume as they did when fully employed and well paid, superficial economists announce that the markets of the world are glutted, a conclusion which is utterly incompatible with the destitution prevailing, not only in this country, but in Great Britain, Germany, and elsewhere in Europe.

In view of the fact that I foresaw, as I have shown by the foregoing extracts from my speeches of 1867 and 1868, that contraction must produce all these dire results, I have as your representative resisted each step in the progress of the cruel work, and labored to avert the calamities you are now suffering and the graver ones which are before you. In this course I have had expressions of your constant approval. My Congressional speeches, addresses to the public, letters, and opinions on particular questions, sought by representatives of leading newspapers, have been presented to you through the press of this and other cities, with frequent and earnest editorial commendation. I have before me copies of the Inquirer, the Press, the North American, the Telegraph, and other papers commending my course at almost every stage of the discussion, and quoting my utterances, which, did propriety permit, I could embody herein with unmingled pride. Had I needed support in my convictions I would have found it in your letters and expressions of approval, in your continued and unsolicited re-elections, and in these expressions from the organs of the opinion of the Republican party. But I did not need such confirmation. My convictions were arrived at by patient study, not merely of theories enunciated by teachers, but of the facts of history and current life. When, therefore, President Grant abandoned the doctrines he had promulgated in his message of December 1st, 1873, and which I had such good reason to believe you cherished, I did not follow him. I could not. I owed a duty to you and to myself. I could not, as I have said, change my convictions at will, and as the doctrine of the resumption of specie payments by the contraction of the currency was made the shibboleth of the party at its ratification meeting at Horticultural Hall I was excluded from the canvass. I could only have engaged in it by sacrificing, not only consistency and self-respect, but the respect of every good man, for you would have seen that I had either played the demagogue on the currency question for nine years, or was playing it when endeavoring to persuade my fellow-citizens to vote in opposition to all I had professed to believe. I could not now, when events are verifying my saddest predictions, go upon the stand and ask you by your votes to indorse a policy which I had so often told you, must, if persisted in, work almost universal ruin among the producing classes of the country.

I will strive, by all honorable means, to secure the repeal of the Resumption Act during the coming session of Congress, and will

not accept any votes you may have cast to-day as the expression of a wish for its enforcement. If, however, you have fallen in love with ruin and misery, I hope you will petition Congress to maintain the Act, notwithstanding the efforts of your representative to effect its repeal. Appended to this letter you will find a communication I made to you through Col. Forney's *Press*, on the 31st of October, 1873, and a letter which followed it on the 4th of November, to which I will attach as notes evidence that the views I now maintain, and am disseminating as widely as I can, were supported by President Grant in his message to which I have referred, and in the reports of the Treasurer of the United States and the Comptroller of the Currency, which were transmitted to Congress with that message. Also a copy of the bill providing for convertible bonds, which I presented to the last House of Representatives, and the remarks I made in support of it when it came before the House for consideration at the opening of the last session. This is taken from the *Inquirer* of December 11th, 1874. An interview with the reporter of the Philadelphia *Times*, had on August 30th, 1875, on the financial condition of the Pacific States. To these I add, as the latest formal expression of my opinions, a letter addressed to Mr. F. M. Thayer, of Evansville, Indiana. In it you will learn how I hope to restore confidence, and make the employment of labor at living wages possible. I wish I could add that I believe it would restore general prosperity, but I cannot; for, as I said in a letter of September 1st to the editor of the Atlanta, Ga., *Herald*:—

"To restore the dead is impossible; to restore to credit and competency the countless men of energy and enterprise who have been reduced to bankruptcy and want by the shrinkage in the value of their property and the high rates of interest imposed upon them by the ruthless action of the government, is no less impossible; nor can we hope to bring back to their old habits of self-respect, temperance, industry, and thrift the millions of industrious laborers who have been forced to live in idleness, and to accept, yes, to tramp the country and beg for the bitter bread of charity."

Regarding this question as paramount to all others, you will pardon me for requesting you to make known to Congress by petitions your wishes, whether they be for the maintenance or the repeal of the Act providing for the resumption of specie payments on the first of January, 1879.

Meanwhile I remain as ever,

Yours, very truly,

WM. D. KELLEY.

APPENDIX.

THE FINANCES.

(From the Philadelphia "PRESS," October 31, 1873.)

WASHINGTON, October 30, 1873.

The Hon. William D. Kelley, Representative in Congress from the Fourth district of Pennsylvania, has been here several days, in consultation with the President, the Secretary of the Treasury, General Spinner, and other prominent officials, on the financial situation. Since the beginning of the panic, Judge Kelley has given special attention to this subject, and he is as familiar with it in all its phases as he is with the other great question of revenue. He came here with certain fixed views with regard to resumption of specie payments, and the remedy for the monetary troubles that have overtaken the country. These are the result of careful inquiry and mature reflection. In addition to the government officials, Judge Kelley has compared opinions with leading financial men; and while he absolutely refuses to detail his interview with President Grant, he has no hesitation in saying, as already stated in these dispatches, that he "finds the President's views much more accordant with his own than he had expected." Your correspondent called upon Judge Kelley to-day, and requested him to state his views at length. Without hesitation he proceeded to say:—

Wide-spread disaster sure to follow specie payments if attempted arbitrarily.

I find that a return to specie payments appears to be regarded as the paramount object of those I meet here. For my own part, I am indifferent to it unless it should come about naturally, and by the presence of gold coin enough to serve as the basis of a convertible currency establish the fact that the balance of trade is in our favor. When specie payments shall be thus inaugurated, they may be maintained, but should such payments be attempted arbitrarily they cannot be continued, and the attempt will result in panic and wide-spread disaster. Whatever differences of detail there may be, I hear but two general plans of resumption suggested. One is by the contraction of the currency, and the other is by the imparting of flexibility or elasticity to that currency, involving at times an expansion thereof. *In my judgment no measure of contraction, whether great or small, gradual or abrupt, would bring us to specie payments.* On the contrary, a vigorous contraction would produce almost universal individual and corporate bankruptcy; would check immigration and cause an immense emigration of recently arrived skilled workers,* and would, in all probability, disable the government for a time from paying with regularity the $100,000,000 of gold interest annually due upon our bonds. We seem to the superficial observer to be nearer specie payments than we were seven years ago, but such is not the case, except that the ultimate day when specie payments will come about is seven years nearer than it was. What I mean to say is that we have made no progress by the application of appropriate means, and are now further off than we should have been had there not been great mistakes in our legislation and the administration of the treasury. In so far as our resources are more largely developed, and we are producing a larger share of the iron and of cotton, woollen, silk, and other goods we consume, we are in a better condition than we then were. But in so far as our

* The number of immigrants this year is less than half that of 1873, and a large continuous emigration is going on.

gold-bearing indebtedness has been transferred from Americans to foreigners, and it has been done very largely, the resumption of specie payments has been postponed.

How our bonds have been driven abroad.

Let me illustrate by showing you how our currency has been contracted, and the American holders of our bonds thus been compelled to sell them to foreigners. When the war closed there were many millions of compound interest notes outstanding, also of the seven-thirties, the three per cent. certificates and other forms of indebtedness, which together amounted to over twelve hundred millions of dollars. There were four hundred and thirty odd millions of greenbacks and three hundred millions of national bank notes, making altogether about two thousand millions of currency. You say the compound interest notes, seven-thirties, and three per cents. were not circulating notes. I admit that you are technically correct, but assert that they were part of our currency, for as they were held as part of their reserve by the banks, they permitted the entire volume of the greenbacks and national bank notes to be in circulation. Then money was cheap. The banks were glad to discount paper at six per cent., and merchants, manufacturers, and capitalists generally were able to hold bonds, and found profit and convenience in doing so; for while they could borrow money for six per cent. currency, they received six per cent. gold with which to meet foreign purchases or to sell at the ruling premium. In the mean time the Secretary of the Treasury was criticised for keeping more than one hundred millions of gold in the Treasury, and not selling it fast enough to satisfy the resumptionists. So long as this condition of things remained, we were developing our resources, stimulating immigration, constructing machinery and importing it, together with skilled workmen to manage it, and impelling and quickening all those agencies by steam and electricity. We could then afford to build "premature" railroads, and thus develop the mineral and agricultural resources of new sections of our country, and were on the road to manufacturing and commercial supremacy, which would have made ours the country in which the world's balances would be settled, as they now are in London—but unwise counsels prevailed.

Mr. McCulloch's mistakes and their results.

The compound interest notes matured and were paid off, which was a material contraction of the currency. The seven-thirties matured and were paid, still further contracting the currency. Secretary McCulloch had issued his Fort Wayne letter, promising that we should resume specie payments before the last of these obligations would mature, which letter cost the country hundreds of millions by the paralysis it inflicted upon our productive industries. If resumption was to be brought about thus rapidly, no prudent man wanted to be caught with incomplete enterprises upon his hands, or to manufacture goods to be sold in a rapidly-falling market. But, worse than all this, having compelled the banks to hold a reserve of greenbacks instead of compound interest notes or seven-thirties, Congress absurdly permitted Mr. McCulloch to retire forty-four millions of greenbacks, a reduction of eleven per cent. of the entire amount. What was the result? Money became scarce and dear, and the rate of interest went up so high that it was no longer a matter of profit or convenience to enterprising Americans to hold our bonds. They had to sell them in order to escape the ruinous rates of interest demanded, and the only market for them was abroad. But deluded by the fact that we were paying our debt at the rate of one hundred millions a year, and the belief that we must therefore be approaching specie payments, we consummated another measure of contraction to the extent of seventy millions at the cost of doubling the rate of interest on that amount of the national debt. The three per cents. were in the nature of a call loan, but they never would have been called, because our banks held and used them as part of their reserve, and were thus receiving three per cent. on that part of their reserve which was composed of these certificates. As the banks would have to supply the vacuum created by retiring them with greenbacks, which were not interest-bearing, but by loaning

which they were receiving six per cent., they never would have called for their payment. If the seventy millions of dollars with which the three per cents. were redeemed had been applied to the redemption of six per cents., our interest account would have been one million five hundred thousand gold less than it now is annually, and the interest would have been paid to Americans instead of the increased amount being paid to foreigners. Thus it has come to pass that nearly all our bonds, except those held by the national and savings banks, are now held by foreigners, and our payment of interest in gold to foreigners, by the Government and on gold-bearing bonds of States and corporations, is more than one hundred millions of dollars annually, or forty millions more than the annual product of our gold and silver mines together.

The absurdity of a proposition demonstrated.

Nobody now complains that the Treasury keeps a hundred millions useless gold, but everybody is glad to know that it probably holds fifty millions. The absurdity of the proposition that "the way to resumption is to resume" is demonstrated by the fact that if the Treasury were to announce that it would pay specie for greenbacks, the national banks, preferring to hold their reserve in gold rather than greenbacks, would present bills for one hundred and twenty-eight millions, or one hundred and fifty per cent. more than the gold held by the Treasury. And having exhausted the Treasury no man could call upon them for a dollar, inasmuch as their notes are redeemable in greenbacks and not in gold. The attempt to resume would result simply and solely in a transfer of the coin from the vaults of the Treasury to those of the banks. Its range of circulation would have no greater extent than this.

Two paths to resumption.

But you ask, Are we never to come to resumption? I answer, Yes, there are two paths to it. One, and the longer one, is to struggle on until, by the progress of a long series of years, our exports shall come to steadily exceed our imports, and foreigners, in payment of balances, shall send us back our gold-bearing bonds, and then settle balances in gold. But he who looks for specie payments by this process, looks through a very long vista. The other process is to promote the transfer of our bonds to our own people by making money cheap, or, in other words, by expanding our currency and issuing bonds payable principal and interest in lawful money, and thus reducing the rate of interest to a point as low or lower than it was before we insanely entered on the work of forcing our bonds on foreign markets by contraction. To accomplish this, I think the banking law should be so modified as to make the payment or receipt of interest on deposits by a national bank a cause of forfeiture of charter, and to prohibit, under serious penalties, the certifying by national banks of any check which did not represent an actual deposit in the vaults of the bank. This in itself would be a measure of contraction. I would therefore relieve the banks from maintaining a reserve to secure either their circulation or deposits. Here let me pause to say why I would abolish the reserves: Primarily to increase the volume of currency and counteract the contraction; secondly, to remove restraints from banks that are conscientiously managed, but which are disregarded by those managed by unscrupulous speculators. But again, I would do it because such reserve is not needed as security for the notes. The bonds deposited with the Government secure them, and secure them adequately, for the notes are only 90 per cent. of the face value of gold-bearing 6 per cents., which, even in this crisis, are at a considerable premium. For the Government to compel the banks to maintain a reserve to protect depositors is absurd. It is at best when fully maintained a delusion, for it amounts to but twenty-five per cent. of the deposits, and yet it leads people to believe that there is a reserve which makes their deposits secure. In connection with these modifications of the banking law, and to avert the effects of the contraction of credits they would produce, I would provide for the issue of bonds payable, principal and interest, in lawful money, at the rate of $3\frac{65}{100}$ interest per annum, or 1 cent a day on $100, and make those bonds interchangeable with greenbacks. How largely such bonds would be taken by our people few are now

prepared to believe. There are two periods in each year when there is but small legitimate use for money or bank credits, during which merchants of good standing have large balances of unemployed capital, and when farmers and tradesmen of the interior districts have greater or less sums for which they can find no profitable employment. This money is now loaned, subject to call, to banks, bankers, and brokers, at a low rate of interest, and it finds its way to Wall Street, where it is employed in making corners in gold, greenbacks, and stocks. By these appliances the industry and trade of the country are embarrassed, the people are swindled and robbed, and crises like that which we are now experiencing and that of the famous Black Friday are brought about. Take as an illustration the case of the farmers of Missouri, Wisconsin, and Illinois, who may have a thousand or a few hundred dollars for which they have no employment. They deposit their money with bankers in their neighborhood, at a low rate of interest. Inasmuch as this money is deposited on call, these bankers cannot loan it on mortgages or long notes to their customers, but they can and do send it to Chicago, St. Louis, or Milwaukee at an increased rate of interest. Speculation in stocks is not strong in those Western cities, and the banks there send their money to New York, where it is again loaned on call at still higher rates. Being on call, the banks cannot invest it permanently, and they, in turn, loan it on call at a still higher rate of interest to bankers and brokers, such as Fisk & Hatch and Henry Clews & Co., who again lend it at from one-quarter to two and a half per cent. a day to what is called "the street," or the parties who get up corners in gold and stocks. Now, here we have the traditional row of bricks. The time comes when many of the original depositors simultaneously want their money. They call on the bankers with whom they deposited. They in turn call upon Chicago, St. Louis, and Milwaukee. The latter make a demand upon New York banks, and so on to the end of the line; or, on the other hand, one great failure occurs in New York or Philadelphia, as happened on the 18th of September, and behold, every depositor and every bank with whom balances were deposited want all the money standing to their credit with any other bank or banker. Now, the issue of such bonds as I have spoken of would effectually put a stop to this whole vicious system. The bonds should be issued in small amounts, twenty-five and fifty dollars, with those of larger denominations. The smallest balance of a farmer put into such a bond would earn him a higher rate of interest than he is in the habit of getting from his local banker. The security would be absolute, and he would know that the money would be forthcoming in greenbacks on demand. So much for the country. City merchants would adopt these bonds as the proper means of employing their capital during the dull months of the year, and capitalists having large sums of money with which they do not wish to speculate, but hold for investment when opportunity offers, would place them in such bonds, and while the country would be protected against the gold and stock gambling of Wall Street, its capital would be employed. Any bill providing for the issue of such bonds should require the Secretary of the Treasury to invest the money thus obtained, as closely as prudence would permit, in the purchase of five-twenty gold-bearing bonds, and to hold any surplus of gold that might accrue for the express purpose of calling in and extinguishing overdue gold bearing bonds. In this way the American people would soon become owners of a large share of the indebtedness of the country. The interest account against the Government would be greatly reduced, and the amount of gold to be paid annually be reduced still more largely, as these bonds would carry interest in lawful money. We would then be on the highway towards resumption, the lion in the path being, as I have said before, the annual payment to foreigners of a hundred millions of gold.

(From the Philadelphia "PRESS," November 6, 1873.)

PHILADELPHIA, November 4, 1873.

MY DEAR SIR: The EVENING BULLETIN of Saturday contained what purported to be a dispatch from Washington, saying the President was "considerably surprised at the statement put forth, apparently with Judge Kelley's

sanction, that the two virtually agree on financial matters." Other papers, mistaking this for an Associated Press dispatch, gave it circulation as such. I am quite sure that the report that I had made such a statement, if he did really hear it, did not surprise the President more than it did me, as I have been scrupulously careful not to repeat anything that was said to me on such matters by the President or any officer of the Government. Nor have I represented him or any of them as agreeing with me. I have made the general remark that I "had found the President's views more accordant with mine than I had expected to." This is true, and whatever may be his opinions on the question of the issue of convertible bonds, or of the increase of currency, to neither of which I have attempted to commit him, it is also true, as I know from personal intercourse with him, that he holds many opinions on the paramount questions of the day that I will, consistently with my past record, find pleasure in maintaining during the coming session of Congress. In the course of a somewhat extended expression of my opinions to Mr. Macfarland, the Washington correspondent of The Press, as appears by his report thereof, I alluded to the interviews I had had with the President, with the Secretary, and with General Spinner, and said I had "heard no suggestion from any of them to shake my confidence in the views with which I came to Washington."*

* The President's Message was dated Dec. 1, 1873, less than one month after the Bulletin's mendacious denial of the correctness of my statement. The following extracts from it, and from the accompanying Reports of the Treasurer, and the Comptroller of the Currency, more than confirm all I had said.

From the President's Message.

"My own judgment is, * * * that a specie basis cannot be reached and maintained until our exports, exclusive of gold, pay for our imports, interest due abroad, and other specie obligations, or so nearly as to leave an appreciable accumulation of the precious metals in the country from the products of our mines.

* * * * * *

"To increase our exports, sufficient currency is required to keep all the industries of the country employed. Without this, national, as well as individual bankruptcy must ensue. * * * Elasticity to our circulating medium, therefore, and just enough of it to transact the legitimate business of the country, and to keep all industries employed, is what is most to be desired. * * * The experience of the present panic has proven that the currency of the country, based as it is upon the credit of the country, is the best that has ever been devised. Usually in times of such trials, currency has become worthless, or so much depreciated in value as to inflate the values of all the necessaries of life as compared with the currency. Every one holding it, has been anxious to dispose of it on any terms. Now we witness the reverse. Holders of currency hoard it as they did gold in former experiences of a like nature.

"It is patent to the most casual observer that much more currency, or money is required to transact the legitimate trade of the country during the fall and winter months, when the vast crops are being removed, than during the balance of the year. With our present system, the amount in the country remains the same throughout the entire year, resulting in an accumulation of all the surplus capital of the country in a few centres, when not employed in moving crops, tempted there by the offer of interest on call loans. Interest being paid, this surplus capital must earn the interest paid with a profit. Being subject to 'call,' it cannot be loaned, only in part at best, to the merchant or manufacturer for a fixed term. Hence, no matter how much currency there might be in the country, it would be absorbed, prices keeping pace with the volume, and panics, stringency, and disasters would ever be recurring with the autumn. Elasticity in our monetary system, therefore, is the object to be attained first, and next to that, as far as possible, a prevention of the use of other people's money in stocks and other species of speculation. * * * In view of the great actual contraction that has taken place in the currency, and the comparative contraction continuously going on, due to the increase of population, increase of manufactories, and all the industries, I do not believe there is too much of it now for the dullest period of the year. * * * During the last three years the currency has been contracted, directly, by the withdrawal of three per cent. certificates, compound

But if my opinions on such grave questions are sound, and it be true that the President is opposed to them, so much the greater is the importance of

interest notes, and 'seven-thirty' bonds outstanding on the 4th of March, 1869, all of which took the place of legal tenders in the bank reserves to the extent of $63,000,000.

"During the same period there has been a much larger contraction of the currency. The population of the country has largely increased. More than 25,000 miles of railroad have been built, requiring the active use of capital to operate them. Millions of acres of land have been open to cultivation, requiring capital to move the products. Manufactories have multiplied beyond all precedent in the same period of time, requiring capital weekly for the payment of wages and for the purchase of material; and probably the largest of all comparative contraction arises from the organizing of free labor in the South. Now every laborer there receives his wages, and for the want of savings banks, the greater part of such wages is carried in the pocket or hoarded until required for use.

"These suggestions are thrown out for your consideration, without any recommendation that they shall be adopted literally, but hoping that the best method may be arrived at to secure such an elasticity of the currency as will keep employed all the industries of the country."

Extracts from the Treasurer's Report.

"It must be obvious to all who have an interest in, or who have watched the course of, the business or financial relations of the country, that there are times when the real wants of the country demand and there should be an increase of currency; and that there are other times, when the safety of all legitimate business requires that it should be largely reduced. What is really needed is a currency so flexible as to, at all times, accommodate itself to the real business wants of the whole country.

"The greatest objection to an exclusively metallic currency is its want of elasticity. That there are regular recurring times when the wants of legitimate trade require an expansion of the circulating medium to an amount much greater than is necessary at other times, is a fact that is patent to all observing business men. When the times arrive for the purchase of the crops and other products of the country, and for their transportation from the interior to the sea-board and a market, immense amounts of currency are imperatively demanded for the purpose, which, when the mission is accomplished, are not wanted for any legitimate purposes of trade and commerce; and, therefore, seek, for the time being, other channels of profitable use. Unfortunately, not being needed as a medium for the interchange of values, this redundancy of the currency is driven into channels of wild speculation in fancy stocks and visionary enterprises. Here it is stranded; and when again needed for the real wants of the people, for the proper transaction of the business of the country, it cannot be had, and the staple commodities and crops that then seek a market are hindered and kept back, through which all classes of people are injured and damaged. * * * For these notorious evils a remedy should be found and interposed. In looking over the whole ground, no scheme has presented itself that would be so likely to accomplish the end in view, as the authorization by Congress of the issue of a certain amount of legal tender notes, that could at all times be converted into a currency interest-bearing stock of the United States, and for which the holder of such stock so authorized could at pleasure, at any time, receive legal-tender notes, with the accrued interest, from the day of issue of such stock to the day of its redemption. It is believed that a rate of interest no higher than $3\frac{65}{100}$ per cent. will be high enough to absorb the desired amount of the circulation when not needed for commercial purposes, and low enough to force the return of the bonds in exchange for legal tender notes at the times when the business wants of the country shall require more currency. * * * This practice, on the part of National Banks, of paying interest on deposits, and especially that of one bank allowing interest on the deposits of another, whether they be permitted to hold the proposed bonds as a part of their reserves or not, should be forbidden by law, under the severe penalty of the forfeiture of their charters."

Extract from the Comptroller's Report.

"The Banks outside of New York, during the dull season, send their surplus means to that city for deposit upon interest to await the revival of business. The

presenting to the people, who are suffering so severely and who are the final arbiters of policies, the reasons by which my conclusions are sustained. Will you not, therefore, permit me again to address your readers?

Always opposed to contraction.

Nearly six years ago, on the 18th of January, 1868, I spoke in opposition to the policy of contraction which Secretary McCulloch was enforcing with unreasoning vehemence, and brought to the attention of Congress the following remarks from Alison's History of Europe: "The evils complained of arose from the unavoidable result of a stationary currency, coexisting with a rapid increase in the numbers and transactions of mankind, and these were only aggravated by every addition made to the energies and productive powers of society." * * * "But if an increase in the numbers and industry of men coexists with a diminution in the circulating medium by which their transactions are carried on, the most serious evils await society, and the whole relations of its different classes to each other will be speedily changed; and it is in that state of things that the saying proves true, 'That the rich are every day growing richer, and the poor poorer.'"

Mr. Johnson's Administration was wise in its own conceit, and would not listen to the admonitions of reason or history; and we see in the widespread ruin which prevails a terrible demonstration of the truth of the averments of the philosophic historian. Since January, 1868, we have added two millions to our population by immigration alone; have constructed and equipped more than 31,000 miles of railroad; have subdued the "Great American Desert," and are working its almost fabulous deposits of the precious metal; have established railroad and telegraphic communication between the Atlantic and Pacific States, and have nearly if not absolutely doubled the productive power of the country. Our annual production of grain, cotton, tobacco, and wool, of gold, silver, copper, lead, iron, and petroleum, has never equalled that of this year But what is the condition of our people now, when November gales herald the approach of winter? I do not exaggerate by saying that hundreds of thousands of industrious and frugal people are unemployed, and in moody despair are exhausting the wages they have saved in past years; and that there are tens of thousands of skilled workmen daily begging the poor privilege of toiling that they and theirs may be enabled to eat the bread of honest independence.

Want and superabundance dwell side by side in every part of our country. Our productive power and ability to consume are so greatly restricted that the public revenues are diminished, the national debt increases, and foreigners, to whom we are heavily indebted, send us additional credits with which to move

Banks in the City of New York, at such periods of the year, have no legitimate outlet for these funds, and are, therefore, threatened with loss. The stock board takes advantage of this condition of affairs, speculation is stimulated by the cheapness of money, and a market is found for the idle funds upon doubtful collaterals, and the result is seen in the increased transactions at the clearing-house, which, during the past year, exceeded thirty-two thousand millions of dollars, or an average of more than one hundred millions of dollars daily—not one-half of which was the result of legitimate business, the total amount of transactions being greater than that of the banker's clearing-house of the City of London. The evil arises largely from the payment by the banks of interest on deposits, an old established custom which cannot easily be changed by direct legislation. A considerable portion of these deposits would remain at home if they could be used at a low rate of interest, and made available at any time upon the return of the season of active business. No sure investment of this kind is, however, open to the country banks, and the universal custom is to send forward the useless dollars from vaults comparatively insecure, to their correspondents in the city, where they are supposed to be safer, and, at the same time, earning dividends for shareholders. A government issue, bearing a low rate, to be counted as a certain proportion of the reserve, and an increase of the amount which the country banks are required to keep on hand, is the proper remedy for such a state of things. Such an investment need not result in inflation, for the currency invested would be in the possession of the government.

our crops and animate our industries. And why has this season, in which nature has lavished upon us with unsparing hand her choicest gifts, been thus clouded by want and despair? Is it not because our circulating medium has been contracted, while our numbers and productive power have been increasing with marvellous rapidity? The fact that, could a sufficient supply of currency to move our superabundant crops and facilitate the ordinary exchanges of the country have been obtained on government bonds and other undoubted securities, the crash would have been averted, proves that it is the result of artificial causes, and is due to the financial policy of the government, and to that alone. We have contracted the currency when we should have maintained or increased its volume, and given it, as we could have done by the early issue of convertible bonds, such a measure of elasticity as would have prevented the possibility of such a crisis.

This we should have done. Let us see what we have done. While refusing to allow the people currency enough to make the daily exchanges of society, and withholding from employers a sufficient number of one, two, and five dollar notes with which to pay their workmen weekly for labor performed, we have, by making money scarce, not only enhanced the rate of interest and reduced the demand for labor, but have increased the value and purchasing power of every dollar hoarded by capitalists. Nor are these all the baneful consequences for which our unwise legislation is responsible; for, by refusing to issue bonds payable, principal and interest, in lawful money, bearing a low rate of interest, but a rate equal to that paid by banks on current deposits, convertible at the will of the holder, in which balances might be temporarily invested, we have enslaved enterprise to usury, and intensified speculation by compelling merchants, manufacturers, and mechanics to sell their government bonds and other sound securities in order to escape from the payment of the ruinous rates of interest demanded by bankers, whose capital is borrowed at low rates, and consists chiefly of corporate and individual balances deposited on call.

Bonds forced to go abroad.

We have thus forced our gold-bearing bonds on foreign markets, and by allowing national banks to pay and receive interest on deposits, and to certify checks drawn against nominal or prospective deposits, have piled fictitious credits upon each other until Wall Street became a financial maelstrom in which the reserves of the banks and bankers of the country were engulfed. And while we were denying industry and productive enterprise sufficient lawful money with which to make current payments, the average *daily* clearing of *checks* in the New York Clearing House, for the year ending October 1, 1872, the latest report to which I have access, amounted to no less than $105,964,277. This is the process by which the currency is inflated. Here is where expansion and contraction are effected when either will best suit the purposes of men like Fisk, Drew, Gould, and Vanderbilt, and their kind, whose moral code would startle most inmates of penitentiaries.

The policy I advocate would, by absorbing private balances in convertible governments, deprive these robber chieftains of their power, give laborers prompt cash payment, and secure quick settlements in every department of trade. That it would contract the fictitious credits of Wall Street, by means of which gamblers in stocks, gold, and bonds gather to themselves the substance of manufacturers and merchants, and transmute the sweat of the laborer's brow into palatial mansions and magnificant equipages, no sane man will, I think, deny. It may be that the President does not approve it, and that Congress will reject it; but with great deference to the opinions of both, I shall continue to believe that with the growing intelligence and power of the people, the year is not remote in which a Congress will provide for it, and an administration inaugurate it in obedience to the expressed will of the people.

An unsurpassed currency.

Our national notes—greenbacks, as they are called—are the best currency we have ever had, and, as I believe, are as good a system as the wit of man

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will ever devise. But, like everything human, the system is not perfect. It wants elasticity. The law by which it was established embraces one almost fatal provision—that which limits the amount that may, under any circumstances, be issued. The same vice taints the national bank law. It was borrowed from Sir Robert Peel's law of 1844, for the regulation of the Bank of England. But the cases are not parallel. Our laws are inflexible, but those of England may be suspended by the government; and this provision of the English law was not meant to be inflexible. Indeed, it had not been on the statute-book three years when, in 1847, it was suspended by an order in council, and has since been twice suspended. *And I hazard nothing in affirming that the ultimate basis of the British currency system is not gold or faith in the honest or judicious management of the bank, but is found in the knowledge that the government will, under any circumstances and at any time, avert the commission of the fact of bankruptcy by the bank, by ordering it to violate the restraints provided by law, and issue notes enough to relieve, not only itself, but all who may offer good securities.* The last exercise of this power was in 1866, and the next will, if I do not gravely mistake the signs of the times, occur in time to shed light upon the duty of Congress in the present emergency. This is the process by which England gives elasticity to her currency, and averts or mitigates financial crises.

Experiences of the Bank of England.

Referring to it, Mr. Walter Bagehot, in his recent volume on "Lombard Street," says:—

Three times "Peel's act" has been suspended because the banking department was empty. Before the act was broken—

In 1847 the banking dept. was reduced to			. . . .	£1,994,000
1857	do	do	do	1,462,000
1866	do	do	do	3,000,000

In fact, in none of these years could the banking department of the Bank of England have survived if the law had not been broken.

* * * * * * * *

In most banks there would be a wholesome dread restraining the desire of the shareholders to reduce the reserve; they would fear to impair the credit of the bank. But fortunately, or unfortunately, no one has any fear about the Bank of England. The English world, at least, believe that it will not—almost that it *cannot*—fail. Three times since 1844 the banking department has received assistance, and would have failed without it. In 1825, the entire concern almost suspended payment; in 1797, it actually did so. But still there is a faith in the bank, contrary to experience, and despising evidence.

But no one in England ever dreams of questioning the credit of the bank, and the bank never dreams that its own credit is in danger. Somehow everybody feels the bank is sure to come right. In 1797, when it had scarcely any money left, the government said not only that it need not pay away what remained, but that it *must* not. The effect of letters of license to break Peel's act has confirmed the popular conviction that the government is close behind the bank, and will help it when wanted. Neither the bank nor the banking department have ever had an idea of being put into liquidation; most men would think as soon of winding up the English nation.

* * * * * * * *

Since 1797 the public have always expected the government to help the bank if necessary. I cannot fully discuss the suspension of the act of 1844 in 1847, 1857, and 1866, but indisputably one of their effects is to make people think that government will always help the bank if the bank is in extremity.

A more miserable catalogue than that of the failures of the Bank of England to keep a good banking reserve in all the seasons of trouble between 1825 and 1857 is scarcely to be found in history.

But more strikingly to the point is the following extract from evidence given in 1858 before a select committee of the House of Commons by Mr. Alderman Salomon, the manager of the chief joint stock bank in London:—

By Mr. Weguelin.—You of course felt quite certain that your deposits in the Bank of England might be had upon demand?

We had no doubt of it.

You did not take into consideration the effect of the law of 1844, which might have placed the banking department of the Bank of England in such a position as not to be able to meet the demands of its depositors?

I may say that that never gave us the smallest concern.

You therefore considered that if the time should arrive the government would interfere with some measure as they had previously done, to enable the bank to meet the demands upon it?

We should always have thought that if the Bank of England had stopped payment, all the machinery of government would have stopped with it, and we never could have believed that so formidable a calamity would have arisen if the government could have prevented it.

By the Chairman.—The notion of the convertibility of the note being in danger never crossed your mind?

Never for a moment; nothing of the kind.

By Mr. Weguelin.—I refer not to the convertibility of the note, but to the state of the banking department of the Bank of England.

If we had thought that there was any doubt whatever about it, we should have taken our bank notes and put them in our own strong chest. We could never for a moment believe in an event of that kind as likely to happen.

Therefore, you think that the measure taken by the government of issuing a letter authorizing the Bank of England to increase their issues of notes upon securities was what was generally expected by the commercial world, and what in future the commercial world would look to in such a conjunction of circumstances?

We looked for some measure of that nature. That, no doubt, was the most obvious one. We had great doubts it would come as it did, until the very last moment.

Have you ever contemplated the possibility of the bank refusing to advance under circumstances similar to those which existed in November, 1857, or upon good banking securities?

Of course I have, and it is a very difficult question to answer as to what its effect might be. But the notion appears to me to be so thoroughly ingrained into the minds of the commercial world that whenever you have good security it ought to be convertible at the bank in some shape or way, that I have very great doubt whether the bank can ever take a position to refuse to assist persons who have good commercial securities to offer.

The necessity of flexibility.

As I have said, our law is inflexible, and the power to suspend it at discretion cannot and should not be imparted to the Executive; and yet there must be somewhere a reserve of legal-tender notes equivalent in their paying power to those of the Bank of England, which may be brought into circulation on extraordinary occasions and returned when these occasions have passed. This is essential to the steadiness and life of business. Nor is the necessity for such a reserve peculiar to countries whose currency is in part or in whole of paper. This is shown by the crisis in Hamburg, and the embarrassment of the Bank of Hamburg when the currency was purely metallic. Ricardo says:—

> On extraordinary occasions a general panic may seize the country, when every one becomes desirous of possessing himself of the precious metals as the most convenient mode of realizing or concealing his property. Against such panics banks have no security on *any system*.

The first and main question for Congress to consider will, in my judgment, be, Can we safely create such a reserve of money, and enable the people to command it when in their judgment the exigencies of the case require its use? My reply to this question is that we can do it, and in such a manner as to reduce the average rate of interest; to recall from abroad and extinguish many of our six per cent. gold bonds; to reduce the government's interest account, and, by diminishing the demand of the government for gold to pay interest on its bonds, reduce the premium thereon and the difference between gold and our paper money.

The convertible-bond plan.

These advantages, I believe, may all be attained by the issue of bonds for $25 and multiples thereof, bearing 3.65 per cent. interest, payable, principal and interest, in lawful money, and interchangeable for such money at the will of the holder.

The money received for such bonds should be closely applied to the purchase of six per cent. gold-bearing bonds. To prevent the embarrassment of the Treasury by a sudden and unusual call for the conversion of 3.65 convertibles, a special issue of greenbacks, to be known as the redemption fund, should be prepared and held for their redemption and for no other use or purpose. This fund would rarely, and it may be would never be drawn upon, but it should be

known to exist—and when drawn upon should be fully reimbursed by the deposit of the first moneys received for this series of bonds after the excitement which had caused the withdrawal had passed. This would produce no general inflation of the currency, but would prevent speculation by preventing the accumulation of corporate and individual balances at a few money centres while the canals are closed, and while maturing crops are not ready to be moved. It would also give flexibility to our currency and prevent such panics as that which is now turning our boundless prosperity into bankruptcy and want.

It will be observed that the foregoing propositions are not submitted as a plan of relief for prevailing embarrassments, but as a method by which their recurrence may be prevented. The measures by which Congress may give immediate relief to the commercial world and animate our paralyzed industries are in my judgment very simple; they are, first, to require the Secretary of the Treasury to invest in six per cent. gold bonds so much of the $44,000,000 retired by Mr. McCulloch as may not be required to meet the current expenses of the government, and, second, to repeal the provisions of the bank laws which require national banks to maintain a reserve to secure either notes or deposits. The expansion of the currency thus produced would restore confidence, and if the amount should prove to be somewhat redundant the surplus would soon find its way into the Treasury in exchange for 3.65 convertibles, and be applied to the purchase of six per cent. gold bonds. Thus would a somewhat redundant paper currency facilitate and expedite the resumption of specie payments by the American people.

Hoping you may, notwithstanding its length, be able to find space for this I remain

Yours, very truly, WM. D. KELLEY

Col. John W. Forney.

MR. KELLEY'S BILL AND REMARKS.

(From the Philadelphia "Inquirer," Dec. 11, 1874.)

Be it enacted &c., That the amount of United States notes in circulation be limited, except as hereinafter provided, to $400,000,000, and that any holder of said notes presenting any sum not less than fifty dollars, or some multiple thereof, to the Treasury of the United States, or any of the assistant treasurers, shall receive in exchange therefor an equal amount of bonds of the United States, coupon or registered, as may by said holder be desired, bearing interest at the rate of 3.65 per cent. per annum, payable semi-annually, which the Secretary of the Treasury is hereby authorized to prepare and furnish for that purpose; and that when any person shall demand of the Treasurer of the United States, or any assistant treasurer, redemption of said bonds, it shall be the duty of the said treasurer or assistant treasurer to pay in United States notes the principal of said bond or bonds, with accrued interest, and cancel and forward the bonds thus redeemed to the Treasurer of the United States forthwith, in such manner as the Secretary may prescribe.

Section 2. The Secretary of the Treasury shall cause to be prepared United States notes of the several denominations now in use of the amount of $50,000,000, which shall be held as a reserve or redemption fund for the purpose of securing prompt payment of said bonds when demanded, and the United States notes so held in reserve shall be used only when needed for the payment of said bonds on their presentation, and shall be withdrawn and placed again in reserve out of any United States notes not otherwise appropriated, received by the Treasury Department thereafter; and the whole amount of United States notes received by the Treasury Department in exchange for said bonds bearing 3.65 per cent. interest shall be appropriated and applied by the Secretary of the Treasury as rapidly as practicable to the purchase or redemption of any bonds of the United States outstanding at the passage of this act.

Section 3. That national banks are hereby authorized to hold said bonds bearing 3.65 per cent. interest instead of the reserve of United States notes now required by law.

Mr. Kelley.—Mr. Chairman, the coming up of this bill at this time is a surprise to me. I had not thought it possible that it could be reached so early in the session. I admit, however, that it is an agreeable surprise, for no time could be more fitting for the discussion of the questions involved than to-day. The President's Message was read to us yesterday, and it contains one short sentence that should be

Printed in Bold Letters and Bright Colors,

over the door of every dwelling and workshop in the country. No truth could be more pregnant with instruction to the American people than the one contained in that brief sentence, so pertinent to this discussion. It reads thus:—

"Debt—debt abroad—is the only element that can, with always a sound currency, enter into our affairs to cause any continued depression in the industries and prosperity of our people."

Why, sir, foreign debt—carrying gold interest—is what is crushing the hearts and the hopes and undermining the morals of the laboring people of our country. It is that indebtedness which is filling our almshouses with people skilled in many industries, and eager to toil for their living. It is that foreign debt, that annual gold indebtedness for interest on the principal that is

Stripping the Thrifty and Industrious Laborer

of his earnings hoarded through years in savings banks; that is, compelling him to see his humble but mortgaged home pass to the capitalist at a nominal price, because he has not been permitted to earn the little stipend that would enable him to pay his monthly dues to the building association, or his semi-annual instalment to the capitalist. It is that foreign debt which is causing a vast tide of emigration to flow from our shores, and repelling hundreds of thousands of immigrants, who expected to find freedom and prosperity under our republican institutions.

And, sir, the bill just read by the clerk is a proposition by which I hope to

Abate this Foreign Indebtedness

by authorizing the government to avail itself of the resources of the American people, and to so locate a large part of the public debt immediately, and all of it ultimately, that when it shall pay its interest it will pay it to those from whom it has drawn by hard and heavy taxation, the money, with which to pay.

This is my object in proposing the issue of convertible bonds, and I stand not upon the phraseology of my bill. I am ready to accept amendments. What I ask is the inauguration of a system by which the honor of the government may be vindicated by its acceptance of the currency it issued and which it now repudiates, and that the people may be relieved of the curse of this debt—"debt abroad"—which, the President says, is the only thing that can interfere with our prosperity.

Wisdom of the Greenback Issue.

When the government issued greenbacks it acted with wisdom enlightened by experience. Thaddeus Stevens, then the controlling mind of this House, knew the story of French assignats, and knew that they had failed because they had been predicated on the revenues of property to which the government issuing them had no legal tenure, and that when the church reclaimed her property and the returning nobility claimed theirs, there was no fund with which to redeem the paper. He knew, too, the story of our Continental paper; that it had been issued with no means provided for its redemption or absorption.

He knew also, sir (for in 1862 he and I talked over the wise opinions pressed upon the Continental Congress by Benjamin Franklin), that that great man had urged that Congress not to increase the issues of circulating notes, but to borrow

from the people those which had already been made by offering to convert them into interest-bearing bonds, and, as I have recently had occasion to write, had Franklin's advice been taken, the story of Continental money would not have become, as it now is, a snare and delusion to many honest, well-meaning and patriotic people, because the amount issued would have been small, and any possible excess would have flowed back upon the Treasury, the people would have held interest-bearing bonds which in time would have been paid off, and the whole amount of the debt would have been nominal in comparison with the figures presented by the total issue of Continental money.

Sir, I say that when we issued Treasury notes, now known as greenbacks, these instructive lessons were present to the minds of those who created this beneficent currency; and they provided that the notes should be convertible into interest-bearing bonds of the government, that whoever took them and found them in excess of his wants could invest them with the government and receive compensation therefor. But, sir, evil counsels prevailed; the House determined that those notes should be full legal tender for all debts, public and private; but the Senate yielded to the evil counsels which to-day seem to control both this and that branch of our National Legislature. It modified the House bill by providing that the interest on the bonds should be paid in gold, and in that instant it in so far repudiated the instrument of exchange, the currency it was authorizing the government to issue, for it also provided that in order to secure a sufficient supply of gold for the payment of that interest the customs duties should be collected in gold.

Sir, when it became inevitable to him that

The Country must be lost or the Bankers gratified,

my venerable colleague in sadness of spirit consented to yield, and the Pandora's box from which all our financial evils have sprung was then created with open lid. A demand for gold was thus created beyond the means of the country to meet. Foreign bankers saw the position in which we had placed ourselves. Speculators at home united with them, and together they aggravated the wide disparity between gold and tho legal-tender notes of the government, which these unfortunate provisions had created. France in her great trouble, taught by her own experience, and having the calamities which resulted from this partial repudiation of our legal tender notes before her, recently made, through the Bank of France, an issue of irredeemable legal-tender notes to the amount of hundreds of millions; and yet the difference between gold and the irredeemable paper of the Bank of France has never exceeded 1 per cent.

A Gold Ring.

And why? Why, sir, simply because France, wiser or more honest than we, made her irredeemable bank note a legal tender for all debts, public and private. No "gold ring" could be formed there, no speculation was open to foreign bankers; but the artist, manufacturer, or other person who wanted gold for mechanical or scientific uses could buy it with the irredeemable notes of the Bank at a depreciation of from $\frac{1}{4}$ of 1 per cent. to 1 per cent.

It is impossible to estimate the loss we have sustained by this partial repudiation. For some years it was but partial, and we still recognized our greenbacks as money upon which the government would pay interest. We maintained a system of temporary loans. They bore many names—compound interest notes, seven-thirties, certificates of indebtedness, etc., but they were all temporary loans, in which the government took the use of the people's money, agreeing to return it forthwith or upon short notice, and to pay interest for the time it held it.

But, sir, the credit-mongers of Europe and this country succeeded in persuading Congress and the Executive Department of the government that it would not be fraud to cheat labor, whether on the farm or in the factory or the mine, by depreciating the currency with which it paid the laborer; that it would not be dishonest to further depreciate the medium for which the farmer sells his grain and the laborer his toil, and induced Congress to repeal all provisions under which our legal-tenders could be invested in the funded debt of the gov-

ernment, and which gave strength, character, and value to them, and the act of 1870 was vigorously and eloquently marshalled by the then chairman of the Banking Committee, the gentleman, now a member from Ohio (Mr. Garfield), which required the payment and cancellation of the poor $54,000,000 of three per cents. in which the greenback might still be temporarily invested.

How stands your Greenback now?

Repudiated by the government. It will not receive it for customs. It will not accept it at par for interest-bearing loans. Yet it makes labor take it in compensation for its toil, and the farmer for the produce of his acres. Is that honest? Are bankers more numerous than laborers or farmers? Can they not, of their abounding wealth, provide themselves with the comforts of life, while honest laborers are compelled to seek refuge in the almshouse or commit petty crime to secure the shelter of the jail? These are the legitimate fruits of the repudiation by Congress of the currency itself had created.

I speak for the American people, and I ask the government to be honest to its own people before it is generous to foreign bankers and bondholders.

Now, sir, in so far as we refuse to receive the greenback for interest-bearing investments, we, as I have said, repudiate it, and we increase that load of debt —debt abroad—which the President pronounces almost the only source of embarrassment from which we can suffer. Our country is drained of gold. We owe more as interest annually than we can obtain, and therefore, we have to pay the deficiency in gold-bearing bonds, and thus aggravate the evil. We must pause in this career, or a wronged and oppressed people may refuse to bear the burden which is becoming so grievous.

Why, sir, may we not give the American people an opportunity to loan money to the government? I do not ask you to compel anybody to lend the government a dollar. All I plead for, gentlemen, is that you permit the American people to lend to the government that which the government forces them to take as money; while by repudiating it and refusing to receive it, as it does, it depreciates its value. The way to enhance its value is to increase its uses.

What does the bill propose? This: that any citizen or corporation having money lying idle, for which no present use exists, may lend it to the government at the rate of 3.65 per cent., recalling it as he would do from a savings bank or individual to whom it had been loaned on call when the time comes for more advantageous use. What good would that do? you ask. Why, sir, in the first place, it would

Remove the Brand of Repudiation

from our legal tenders, and it would give the government immediately—when I say immediately I mean within, say, six months from the time when the first bond should be issued—about five hundred million dollars at that low rate of interest, payable to our own people within our own limits, with which to redeem gold-bearing bonds now held by foreigners. It would relieve us of that amount of that "debt abroad" which so curses us. It would give increased value to the greenback, and thereby diminish the disparity between it and gold. It would diminish the demand for gold, and thereby again decrease the disparity between gold and the greenback.

And, sir, more and better than this, it would quicken every industry in the country. How so? Why, sir, much of our currency no longer circulates; it has ceased to perform the function of currency; it is hoarded as capital. More than sixty millions of it lie dead in the Treasury. What is the office of currency? It is to run, to circulate, to pass from hand to hand in effecting exchanges of property and values. Why does it not run, why does it not circulate? Because capitalists know that with the cry of contraction and the threatened repeal of the legal tender clause, the production of the country must still further contract. They know that with the government insisting on contraction, and capitalists hoarding currency as capital, the prices of all property must depreciate, and vast amounts of it exchange hands by forced sales.

They know, sir, that the time has already come when

The Loss of Interest

will be more than compensated by the purchase of mills, factories, forges, furnaces, mines, farms, and homes at one-third their real value at sheriffs' or marshals' sales. They are permitting their capital to lie in the form of currency, to use it when they have so cursed and crushed the productive classes of the country that they can again make 100 or more per cent. on their investments, as they did when they bought our bonds with greenbacks, which their counsels had depreciated by inducing Congress to consent to their partial repudiation. This bill would bring those $60,000,000 of currency into circulation. How? If those who have deposited it entertain the views I express?

Why, sir, there are, all over the country, balances lying in the hands of insurance companies and other corporations, unproductive or producing small rates, and incurring the risks incident to deposit with banks or bankers. Those sums would flow into the Treasury in exchange for a temporary loan. Business men, with their energies paralyzed, who are unwilling to produce goods to sell on a constantly declining market, would give activity to the currency in their possession by putting it into 3.65s as an absolutely safe depository.

Restoration of Confidence.

The bill makes it the duty of the Secretary of the Treasury to invest funds so received as rapidly as practicable in gold-bearing bonds, so that the money would not only flow to the Treasury from these sources, but would flow out in the purchase of gold-bearing bonds. It would circulate; confidence would be restored; the people would feel that at last the government recognized its own currency, and would no longer oppress and wrong them by striving to contract its volume. And when these many mickles had made their muckle in the Treasury, the greedy holders of those $60,000,000 would find that they had been circumvented; that property was rising not only in price but in value, and would give the government the right to use that money, of which it is now the mere custodian, by putting it into these convertible bonds.

I will not answer objections in advance; I shall wait to hear what they may be, trusting to the courtesy which never forsakes him of my friend from Tennessee (Mr. Maynard) to give me, as he has said he will, part of the last hour of the debate. In concluding, therefore, this impromptu speech, on a very well-considered subject, I take leave to say that if it shall be the sense of the committee to strike out that clause which provides for $50,000,000 additional of currency to be held as a redemption fund, and to say that the Secretary of the Treasury shall hold a certain percentage of the money deposited for the three-sixty-fives as a redemption fund, I shall make no objection to it.

Mr. Butler, of Massachusetts.—I observe that the bill fixes the limit at $400,000,000, which was the amount first fixed in the bill of last year. I would suggest to the gentleman from Pennsylvania, so that it cannot be an objection to the bill in any man's mind, that it is expansion if we fix the limit in the bill at $382,000,000.

Mr. Kelley.—I thank the gentleman for bringing that point to my attention, for I have before me a copy of the bill, with the substitution at the point where this modification is suggested of $382,000,000, the amount of currency now fixed, for $400,000,000, and an addition to the second section, which makes it the duty of the Secretary to buy, with the proceeds of these bonds, gold-bearing bonds, a clause giving him the option to purchase gold with which to redeem said bonds; my idea being that if the bonds should be run up to artificial prices, the Secretary of the Treasury could then buy gold, and call overdue bonds; the object of the bill being to relieve the country of what our President says is its greatest curse—debt—debt abroad—which is due to people who do not love us or our institutions.

If any gentleman desires to speak, and I have time, I shall have no objection to yielding to him.

The Chairman.—The gentleman has twenty-five minutes of his time remaining.

Proposed Amendment.

Mr. Kelley.—If nobody desires to speak, I propose to amend the bill in accordance with the suggestions which I have made. I send to the desk these amendments, and ask the clerk to read them.

The clerk read as follows:—

On page 2 of the bill, on line 18, after the word "and," insert these words, "of such assistant treasurer to," so that it will read—

And of such assistant treasurer to forward the bonds thus redeemed to the Treasurer of the United States forthwith, in such manner as the Secretary may prescribe.

At the end of the bill add the following: "For the purchase of gold with which to redeem said bonds."

Mr. Kelley.—I ask the gentleman from Ohio (Mr. Garfield) to yield to me for the purpose of offering a substitute for the second section of this bill as amended. I will also inform the committee that I will ask the House to order the bill, with the pending amendments, to be printed, so that every gentleman may have it on his desk to-morrow.

The proposed substitute was read, as follows:—

That the Secretary of the Treasury shall invest seventy-five per cent. of United States notes received in exchange for said convertible bonds, as rapidly as may be practicable, in the purchase or redemption of any bonds of the United States outstanding at the date of the passage of this act, or in the purchase of gold with which to redeem said bonds.

TRUE FINANCIAL CONDITION OF THE PACIFIC COAST.

(From the Philadelphia "Times," September 3, 1875.)

In the *Times* of a few days back, we printed the substance of a conversation held by one of our reporters with the Hon. William D. Kelley, on Monday last, in which the latter gave an account of his recent Western trip. At the same time Judge Kelley gave his opinions upon the crisis in California, of which the reporter took copious notes, and as the subject is one of present interest, and as much of the information conveyed is fresh and important, we have had him write out his notes, and herewith present them:—

Reporter.—I am not sure that I fully comprehend your last statement. You said that you urged Mr. Ralston to use his influence to introduce the greenback as a legal tender on the Pacific coast. The law made it legal tender everywhere throughout the land, did it not?

Judge Kelley.—Yes; the statute law did, but the higher law of universal usage, enforced by the creditor's power over the debtor, nullified the legal-tender act on that coast. From the organization of the Bank of California, the government of the States on the Pacific coast has been, with the exception of brief intervals, exercised by the bank, its officers, stockholders, who are but few in number, its adherents, and those of its debtors whom it could ruin by the withdrawal of their usual line of credit. On the passage of the legal-tender act, the government of the bank assembled the most powerful representatives of these classes, appealed to them to support the metallic currency then in use, and announced imperatively that any man who took advantage of the legal-tender law in the payment of a debt on the Pacific coast should, from that time forth, be branded as dishonest, and deserving of financial and social death. The immediate consequence of this bold defiance of law was, that while gold has been a commodity, and not a part of the currency of the rest of the Union, it has there been currency as well as a merchantable and exportable commodity; but the final and comparatively near result will be the inundation

of California, Oregon, and Nevada with shinplasters, issued by local corporations and individuals. Confidence has been impaired, and credit must be contracted. Gold enough to serve as a medium of exchange with which to make purchases and pay maturing obligations cannot be had, and as the use of the greenback as legal tender in payment of debt has been habitually regarded as discreditable, the people will be deprived of a medium of exchange, and the notes of corporations and individuals will take their place, and circulate as such private notes now do in large sections of the Northwest, and over almost the entire South. The only means of averting this dire calamity will be for the bankers to force depositors to receive the greenback which in their prosperity they repudiated.

Reporter.—Then you do not accept the telegraphic assurance that the worst is over, and that the Merchants' Bank and the Gold Note Bank and Trust Company have suspended temporarily, and that the latter will resume business today?

Judge Kelley.—No, sir. There is no part of the world in which the financial depression now prevailing will produce such disastrous effects as in California and the dependent States of Oregon and Nevada, unless it be in gold-basis England, for in no other country has private credit been so largely loaned by banks to adventurers for speculative purposes. By this process the indebtedness of banks and bankers is made the basis of discounts, and credit is inflated unduly in proportion to the existing amount of legal-tender money. You will probably be surprised to hear that after having twice visited the Pacific slope, and gone along the coast, stopping at the principal towns in California, on Puget Sound, and the Columbia River from Los Angeles in the south to Victoria in British Columbia, I have regarded it as the least prosperous portion of our country. I came to this conclusion because I saw there the least chance for that progress which results from large and steady immigration, and the combined energy and competing enterprise of great numbers of intelligent people whose labor, or this combined with small accumulations of past earnings, constitute their sole capital. By the exclusion of the greenback almost all other than Chinese immigrants were repelled. Men whose dollars were in paper did not want to settle in a country in which they would be valued at but 63 cents, as mine were in 1869, but in which prices were as high in gold as they were in paper in the Atlantic States. Besides this, by restricting the amount of currency, the bankers, in whose hands were the most profitable mines, crushing mills, refineries, etc., were able to control the rate of interest, which they never permitted to fall below one per cent. a month at bank, while it frequently ranged outside at three and sometimes at five per cent. a month. Being the sole vendors of credit, it was also in their power to lend money or credits deposited with them to men of enterprise who were willing to embark their time, labor, and capital in undertakings which seemed to promise profit on receiving adequate security for the repayment of early advances, so that if the venture proved a failure, he who had undertaken it should bear the loss: if, however, as it progressed it gave sure promise of profit, further credit could be withheld, and the projector embarrassed to such an extent that, in order to save anything from the wreck, he would have to sell a controlling interest in his enterprise to those with whose credit he had involved his past accumulations and his future prosperity. Thus everything in that region that promised profit on a large scale passed into the hands of and is owned by bankers and their favorites. An exception to this rule is found, I think, in General Bidwell, the present reform candidate for Governor of the State, with whom I served in Congress. His farm of 23,000 acres, however, illustrates the scale on which land is held. In 1872 I passed through a wheat farm, 35,000 acres of which were then being mowed. The directors and principal stockholders of the Bank of California are all millionaires. Its former president, D. O. Mills, who, like Mr. Ralston, went to the Pacific coast a poor man, and has not yet passed the prime of life, is worth from $12,000,000 to $20,000,000. Michael Reese is reputed worth $10,000,000. William Sharon, who was recently elected by the unbiassed and unbought votes of the Legislature of Nevada to a seat beside his mine-owning brother Jones in the United States Senate, is said to be worth

$30,000,000. Yet if you will take the reports of the census of 1860 and 1870, and compare the progress of California with that of Minnesota, Iowa, or Wisconsin, you will be startled at the evidence you will find of the superior progress in population, wealth, and industrial development of these remote inland States, in comparison with that of California, whose natural resources are, in my judgment, greater, more diversified, and more accessible to the world at large than are those of any other territory of equal extent on the American continent or in Western Europe. California is the exclusive American producer of quicksilver, and she has many rich mines of cinnabar, from which it is produced. I need not allude to her gold or wine production. She has iron and coal; though, owing to the richness of her land, her wool is greasy, and somewhat wanting in tenacity, it is unsurpassed for fulling blankets and other articles, and in the manufacture of certain kinds of cloth, particularly those which admit of an intermixture of cotton; and her flocks of sheep are immense, and increase from year to year. To carry away her surplus wheat requires fleets composed of hundreds of vessels. She grows excellent tobacco, and in the valley of the Merced has for the last three years produced largely remunerative crops of excellent cotton. She has natural lakes of borax, large deposits of sulphur, produces as affluently as Sicily the fruits of all the world, and grows strawberries in the open air more than nine months in the year. Yet, richly and variously as California is endowed with the raw materials for manufactures, she is the one State of the Union not involved in the rebellion whose manufacturing power absolutely decreased—at least so it is shown by the census—during the decade from 1860 to 1870. It cannot be said that nature interposed barriers to Caucasian immigration. Her great seaport, San Francisco, can be reached by British and Continental immigrants at less cost in money, though the passage involves more time, than can Wisconsin, Michigan, Iowa, or Minnesota. European emigrants go by sea to Australia, Queensland and England's other remote colonies, and would more gladly come to California could those who have gone thither advise them that laborers can enjoy the same measure of prosperity that they find in the cold and almost purely agricultural States of the Northwest, where winter lasts more than half the year, and fuel is required for comfort at intervals in almost every month. Mr. J. P. Zane, of Venango County, in this State, who was for twelve years a resident of California, attended the Detroit convention, and, in response to my suggestion that wide-spread ruin impended over California, handed me some papers he had published six months ago in the *Oil City Derrick*, in which he presented a detailed comparison between the progress of Minnesota and California, which I have unhappily mislaid, or I would ask you to submit to the readers of *The Times* some of their amazing but indisputable contrasts. He agreed with me that the crash was impending, and that when it came it would develop a larger measure of insolvency and a greater shrinkage of values in California than would be discovered in any other part of this country, even should the Government be able to maintain its insane policy of contracting the legal-tender money of the country, and concentrating the accumulated wealth of the people in the hands of Jay Gould, Vanderbilt, A. T. Stewart, the Astors, and a few other adventurers and capitalists.

Reporter.—Then you feel confident that the statements telegraphed to the papers to-day (Monday, August 30), that the worst is over, and that the failure of the Bank of California is the mere result of Ralston's maladministration, are unfounded?

Judge Kelley.—Yes, sir. Not only will the banks that have suspended not resume permanently, but gradually the news will come from the interior that banks in the towns in all directions have suspended. They, too, will find it impossible "to obtain coin."* When the notice required for the with

* After a brief resumption of business the National Gold Note Bank and Trust Company finally closed its doors; six weeks after its collapse the Bank of California, having been granted an extension by its heavy depositors, is making an effort to regain the confidence of the public, and the *San Francisco Commercial*

drawal of deposits from the savings banks shall have expired, there will be new failures in San Francisco. To-day, we are told, is settling day with the banks in California, and that if it passes without many failures the whole coast will be reassured. It will be only goslings and the green members of the flock that will be assured by this fact, for no man in California will be required to pay a note to-day. Whatever bank holds a note due and payable to-day will renew it, with or without the payment of interest. No new credits will be given, but the payment of no debt will be enforced, and this policy will be pursued for weeks; but it must come to an end, and then the great crash will come. In proof that I have stated the policy of the capitalists of the Pacific coast, you find it stated that the manufacturing enterprises with which Ralston and the bank were connected will have a hard time of it, all except the rolling mill, which, it is hoped, may go through. It is already announced that the Kimball Company and the Watch Manufacturing Company cannot survive the shock. When the working people who have been depositing their wages shall lose employment and be compelled to live upon past earnings, the savings banks will feel the draft and acknowledge that the difficulty of obtaining coin is insuperable and this will possibly be by the time the notices of intended withdrawal served on them on Friday and Saturday last shall have expired. [Here the Judge remarked that it would be useless to say more on the subject of the crisis in California, but asked whether he might avail himself of a little more space to point the moral of his statements, which was readily accorded him.]

Our crisis of September, 1873, said he, resulted from two causes. First the habit of discounting commercial paper by banks and bankers as they do in England, with money deposited with them for safe keeping; and second, the want of flexibility in our currency which in spite of express statutory provision to the contrary they have in England. The law authorizes the Bank of England to issue notes to the amount of £14,000,000 sterling on the basis of government securities which she owns, and to add to them only such an amount of notes as she has gold in hand. A note in excess of the volume thus established is illegal, and such has been the law since 1844. Yet four times since then—the first instance occurring in 1847, when that law was not three years old—the government has, by orders in council, authorized the bank to mitigate panics or avert them by the issue of her notes, which are legal tender, in excess of the legal restriction. Our government cannot exercise this power. Between the 18th and 25th of September, 1873, she could have bought her own gold-bearing bonds, with the interest accrued to date, at their face amount in greenbacks had the Secretary of the Treasury had the power to give those non-interest bearing evidences of debt, known as greenbacks or legal tenders, in exchange for bonds which bore gold interest, and on which interest had already accrued. I make this statement upon the authority of the then Secretary of the Treasury, Mr. Richardson, who mentioned the fact to me as evidence of the folly of the persons who made the offer. I could not see the folly, for if by such a sacrifice solvent men could save their credit and aid in arresting a wide-spread and destructive panic, it seemed to me the highest wisdom that they should make it. It is to avert or correct these two destructive defects in our system that I advocate the convertible bond system. But it would also greatly reduce our annual interest and make a large part of it payable in paper to our own people which is now payable in gold at higher rates to foreigners. By furnishing an absolutely safe depository, it would have prevented bankers from speculating with the funds gathered by the poor freedman and deposited as a sacred trust in the Freedman's Savings Bank. It would have saved to the laboring people of our city the sums lost by the swindling Franklin Savings Institution, and it would have saved to other classes the immense amounts they lost by depositing balances at low rates of interest with private bankers in this city, New York, and elsewhere. That this aspect of the 3.65 question

Herald, of Oct. 28th, asserts that it is almost impossible to obtain money at any rate. It says:—

"The banks could loan any amount just now at 1½ per cent. per month, but the funds are not there to loan."

is beneficent, few will have the hardihood to deny. But it would, by thus withdrawing from banks and bankers the savings and balances of the people, diminish their power to expand the circulating medium, which, through the aid of clearing houses, is inflated by checks, drafts, promissory notes, and other familiar instruments of fancy financiering. It would thus break up much of the gold and stock-room gambling of Wall Street and put general business on a sounder basis than it has ever been. The issue of such bonds would furnish an instrument by which the volume of currency would be regulated by the conversion of balances into interest-bearing bonds, and prevent panics and crises by putting beyond peradventure the certainty that legal-tender money with which debts could be paid could be had in exchange for them from the Treasurer of the United States or any Assistant Treasurer on any business day of the year.

INTERCONVERTIBLE BONDS.

JUDGE KELLEY ON THE FINANCIAL ISSUE—WHERE IS THE SPECIE WITH WHICH TO RESUME TO COME FROM?—HOW TO GET THE PROCEEDS OF THE BONDS INTO CIRCULATION.

PHILADELPHIA, Oct. 27, 1875.

F. M. Thayer, Esq., Editor of the Journal, Evansville, Ind.:—

DEAR SIR: Your favor of the 20th awaited my return from Georgia, whither I had gone to present my views on the financial question to the people of the cities of Macon and Atlanta.

Before attempting to show how money received for convertible bonds can be put in circulation by the treasury, permit me to say that while the statutory threat of resumption of specie payment on the 1st of January, 1879, remains in force, no increase in the volume of currency could stimulate commerce or revive our prostrate industries. That act has destroyed confidence, and is an absolute bar to its revival. Capitalists know that its effect must be to reduce the value of everything but money and government bonds, and to increase the ratio of shrinkage of that of every other species of property as we approach the day when we shall have no circulating medium. That such a day must come is inevitable. Prudent bankers are already retiring the notes issued to their banks, and, by the sale of their bonds, obtaining greenbacks with which to carry on banking operations. The motive which induces most of them to thus contract the currency is to avoid the possibility of being called upon to redeem their notes at a time at which it is obvious to them no gold with which to redeem can be had. Other motives may operate on some who are surrendering their currency, but many have assured me that this has been the controlling reason with them. Meanwhile a steady contraction of greenbacks is taking place. For the resumption act provides that for every $1000 of national bank notes issued to new banks, or in increase of the circulation of old ones, $800 of greenbacks shall be withdrawn and cancelled. I mention this to bring your attention to the fact that when that cancellation takes place it is final, and the greenbacks are not, as many suppose, to be again put in circulation in the event of the surrender of the bank notes, the issue of which caused their retirement. These operations must continue, except that the number of applications for new banks will diminish as the time for resumption approaches, and the pressure for money and the shrinkage of values becomes more pronounced. Bullionists say that when the greenbacks shall be withdrawn gold will come in to take their place. What will bring it? Whence will it come? The threat of resumption by contraction made by Mr. McCulloch, in his Fort Wayne letter, was a shock to the confidence of the country, and gave a palpable check to enterprise. Since then we have been contracting not only our currency, but, as an inevi-

table result of this, we have reduced the prices of the commodities we produce, contracted production, and by throwing our laborers out of work have contracted their ability to purchase, and so restricted our home market.

We, therefore, have less with which to purchase gold than we would have had but for the adoption of this insane policy, and must go on reducing the supply of commodities by the exchange of which we might hope to draw gold to us. But where could we get it if we had the wherewithal to bny it? England has none to spare. Let me demonstrate this. When the syndicate sold $21,000,000 worth of bonds in England, the bank interfered and threatened to break up the arrangement and destroy our credit in that country if Mr. Boutwell, who was then Secretary of the Treasury, did not consent to bring the fund hither in American bonds, instead of requiring all or any part of it in gold, because the withdrawal of such a sum in gold would throw England and Scotland into a financial crisis. So, too, when the Geneva Conference awarded us $15,500,000, the British Government, through its Minister at Washington and our State Department, interposed aud induced our Government to accept United States bonds instead of gold, because the withdrawal of $15,500,000, a little more than £3,000,000, might produce a financial crisis. A few weeks ago the New York Tribune and other organs of the bullionists were constantly and exultantly telling their readers that the Bank of England held more bullion than it had ever held before. The amount was $133,000,000, to which, subsequently, $10,000,000 were added. Three weeks ago the rate of interest was 2 per cent. But the bank had been losing small amounts of bullion for some successive days, and on last Thursday two weeks the rate was raised to 2½. The outflow of bullion continuing the rate was raised on the next Thursday to 3½; and as the outflow still continued, on last Thursday it was raised to 4 per cent. This increase in the rate of interest throughout Great Britain was made, as you are well aware, for the purpose of preventing the further withdrawal of gold from the bank, and of attracting that commodity to London.

Do not these facts show that we cannot hope to get specie to use as currency, or even to base a currency upon, from England? Can we hope for such a supply from our mines? Our annual production of gold has ranged for some years past at from $32,000,000 to $35,000,000, not one-third the annual interest on our gold-bearing foreign indebtedness, national, State, municipal, and corporate. You will agree with me that the assumption that gold will take the place of the paper money we are destroying is preposterous. Capitalists understand this, and consequently know that values must continue to shrink with accelerating speed until the severity of the pressure upon the people shall compel the Government to give them relief by repealing the law which requires the resumption of specie payments. Meanwhile they deposit their money in banks or the Treasury and receive therefor certificates of deposit bearing no interest. The amount thus deposited at this time is not far from $70,000,000. This is a measure of actual contraction, of which the organs of the bullionists take no note. But if Congress does not repeal the resumption act, I confidently predict that the amount thus deposited without interest, and to lie as dead capital in the Treasury and banks, will exceed $100,000,000 before the close of the next session, and that the increase will be attended by a steady shrinkage of values, and an equally steady increase in the number of failures among business men, who will have been robbed not only of their property, but of reputation for prudence and business capacity, by this arbitrary and wanton reduction of the demand for and the price of the property in which they had invested their means and credit.

In compliance with your request I submit the following statement, which is as concise as I can make it, of the means I would suggest for the relief of the community. The first thing to be done is to remove the apprehension of forced resumption by the repeal of the act requiring it. This would check the depreciation of property by restoring a certain measure of confidence. Second, diminish the demand for gold, and thereby lessen its relative value. Third, increase the profitable uses of the greenback, and thereby enhance its value. To effect these objects Congress should provide for an issue of bonds, payable

on the demand of the holder, at a low rate of interest, in greenbacks, say 3.65 —or 1 cent. a day on $100. The effect of this would be to give the people a Savings Bank in which their funds would be absolutely safe and certainly forthcoming when wanted. Jay Cooke & Co., Henry Clews, Duncan, Sherman & Co., the Freedman's Bank, the Franklin Savings Institution of this city, and other savings banks that have failed, promised all this, but were unable to perform their promises, and have, by their failures, despoiled the laborious and enterprising people of the country of tens of millions of dollars which would have been gladly loaned the government at the rate of interest above indicated.

But the question has been put to me as it has to you. Do you wish the government to pay these people interest on their funds when they cannot use them, and to return them when they need them, and thus burden the people with an increase of taxes? To do this would be the very height of folly. I can find no warrant for it in the constitution; but if these deposits can be so used as to reduce the burdens of the people by calling in and cancelling the bonds, the interest on which is 6 per cent. in gold, none can deny the constitutionality or beneficence of the arrangement. My plan of getting this money into circulation would be this:—

First. To prohibit the Secretary from selling gold under any pretence whatever, and to require him on the first of every month to apply the gold on hand, in excess of the requirements of the treasury, to the calling and redemption of 6 per cent. gold-bearing bonds, and to continue this so long as any such bonds shall be outstanding, and thereafter to the calling and redemption of 5 per cent. gold-bearing bonds.

Second. To provide that, in so far as the internal taxes may not supply sufficient currency with which to meet all the appropriations made by Congress, the Secretary of the Treasury should resort to the money received in exchange for convertible bonds.

These provisions would enable him to pay off at least $60,000,000 of 6 per cent. bonds in the first year, and reduce the gold interest, chiefly due to foreigners, $3,600,000, which would be a reasonably good year's progress towards emancipation from the golden chains which now shackle our enterprise and industry. But much more could be done. Satisfied that resumption was not to be forced, the owners of the money now withdrawn from circulation and lying dead in the Treasury and banks would put it into these bonds until satisfactory investments should offer.

Third. To require the Secretary to apply the funds received for convertibles, and not required by the exigencies of the Treasury, to the purchase of gold-bearing bonds or gold with which to call them, whichever might be done most advantageously.

After broad and careful inquiry during the last two years, I am abundantly satisfied that he would by this means be able within one year to redeem and cancel nearly, if not quite, $500,000,000 of bonds, and thereby reduce our annual gold indebtedness $25,000,000 or $30,000,000. The saving would be the difference between 3.65 and 5 or 6 per cent., and between the payment of the amount required in paper or gold; and an effect more beneficent perhaps than either of these would be that it would insure the payment of the interest to our own people rather than to foreigners.

Fourth. To restore the reserve fund which Mr. Chase suggested and Congress ordained when the system of temporary loans or convertible bonds was provided for by the act of July 11, 1862. The provision was for $50,000,000, "to be reserved to pay temporary loans promptly in case of emergency." In 1863, when the Confederate armies were in Pennsylvania, the Treasury had out over $100,000,000 of temporary loan certificates, or convertible bonds, and holders of them becoming alarmed presented them to the amount of $69,000,000; but, confidence being restored, Mr. Chase, in his annual report, was able to state that this reserve had been drawn upon for $10,000,000, and that the reflow of deposits had restored it. The establishment of such a reserve would make the payments absolutely certain, and prevent the possibility of cornering

or embarrassing the Treasury, yet it could not lead to inflation, as it would never be drawn upon except when money was in unusual demand by reason of some temporary cause.

Fifth. To require the Treasury, which is now the redemption agency for national bank notes, to hold all such notes as should come into its possession, and when the notes received of any bank should amount to $900 to cancel them, and substitute therefor in the vaults and accounts of the Treasury $900 in greenbacks of like denominations, and transmit to the bank, instead of the notes so withheld, the $1000 bond by which they had been secured. Thus the government would, without disturbing the volume of currency, gradually resume its prerogative of issuing the current money of the realm, with which it should never have parted; and, as the bank would require currency with which to continue its business, it would sell its bonds at their current market price, which operation would prevent capitalists from cornering bonds and putting them up to such prices as would prevent the government from profitably purchasing them with the proceeds of 3.65 bonds. An effect of this would be to divorce the government from all connection with banking corporations, and to relieve it from the charge now justly brought against it of granting profitable privileges to capitalists of our own and other countries. Depositors would then select their own depositary, choosing between the government at the rate of interest fixed in its convertible bonds, and banks, and bankers, who might offer them a higher rate. But the people would live in the confident assurance that the money they used could be carried without discount to the most remote parts of our country, and that, unlike specie basis bank notes, they would remain absolutely unbreakable and without discount in commercial transactions so long as the government lasted. I have thus, my dear sir, as briefly and succinctly as possible, given you my methods of relieving the country from the paralysis which now affects all its interests, and from the mortgage upon the earnings of our people held by foreigners, and indicated the process by which I would restore the millions of dead capital, now lying on deposit in the Treasury and in the banks, to the exercise of its functions as money, which are to circulate, to facilitate exchange of property, and to measure values in accordance with the money of account ordained by the laws of the land, viz., dollars and cents. With great respect, I remain yours, very truly,

WILLIAM D. KELLEY.